

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 SAJ-01

CU-02 EB-07 TRSE-00 COME-00 AID-05 /071 W

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R 200955Z JUL 76

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 412

INFO AMEMBASSY MANILA

AMEMBASSY SEOUL

AMEMBASSY TOKYO

AMCONSUL HONG KONG

USLO PEKNG

CINCPAC

C O N F I D E N T I A L SECTION 1 OF 2 TAIPEI 4889

CINCPAC FOR POLAD

EO 11652 GDS

TAGS PFOR PINT ECON TW

SUBJECT: SUMMER DOLDRUMS

1. SUMMARY: THE JUNE 9 CABINET RESHUFFLE CONTINUES TO RECEIVE VERY LITTLE COMMENT, WITH MOST LOCAL OBSERVERS SUGGESTING IT IS SIMPLY "MORE OF THE SAME." THE ONLY APPOINTMENT THAT HAS MET WITH MUCH POPULAR APPROVAL IS THAT OF NEW TAIPEI MAYOR LIN YANG-KANG, WHO HAS ALREADY DEMONSTRATED UNCOMMON DECISIVENESS IN ADMINISTERING THE MUNICIPAL GOVERNMENT.

2. INVESTIGATION OF THE CHI TA LOAN SCANDAL IS CONTINUING, AND 36 BANK OFFICIALS HAVE ALREADY RECEIVED ADMINISTRATIVE PUNISHMENT FOR THEIR INVOLVEMENT IN THE CASE. THE GROC IS TAKING ACTION TO REDUCE NEGATIVE EFFECTS OF THE SCANDAL NOW BEING FELT BY MANUFACTURING FIRMS, AND US
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BANKERS ARE MOVING AHEAD IN A NORMAL MANNER, APPARENTLY

ON THE ASSUMPTION THAT THE CASE WILL BE DEALT WITH SATISFACTORILY.

3. MOST POPULAR TOPICS OF CONVERSATION LOCALLY ARE THE US PRESIDENTIAL ELECTIONS AND THE QUESTION OF ROC PARTICIPATION IN THE OLYMPICS. WHILE THE CANADIAN POSITION HAS BEEN A SOURCE OF FRUSTRATION AND DISAPPOINTMENT, MANY HERE HAVE TAKEN HEART FROM THE FAVORABLE PUBLICITY DERIVING TO THE ROC AS A RESULT OF THE CANADIAN ACTION AND FROM WHAT THEY INTERPRET AS FIRM US SUPPORT. END SUMMARY.

4. THE JUNE 9 CABINET RESHUFFLE HAS OVER THE PAST MONTH RECEIVED LITTLE COMMENT, PUBLIC OR PRIVATE. NO SIGNIFICANT CHANGES IN STYLE OF GOVERNMENT ARE YET ASCERNIBLE AS A RESULT OF THE RESHUFFLE, AND LOCAL OBSERVERS HAVE SUGGESTED IN THEIR LIMITED COMMENTS TO EMBASSY OFFICERS THAT THE RESHUFFLE IS OF NO PARTICULAR IMPORTANCE EITHER IN TERMS OF POLICY OR ATTITUDES OF THOSE NEWLY APPOINTED TO THE CABINET. MOST PEOPLE APPEAR TO VIEW THE RESHUFFLE AS SIMPLY "MORE OF THE SAME." NONETHELESS, ALTHOUGH THE RESHUFFLE IN ITSELF DOES NOT APPEAR TO HAVE BEEN DESIGNED TO STRIKE A NEW NOTE IN GOVERNMENT, THE PREMIER HAS INCREASINGLY STRESSED THE NEED FOR HONESTY AND EFFICIENCY IN GOVERNMENT, SUGGESTING THAT HE WILL DEMAND MORE FROM CABINET MEMBERS, BOTH OLD AND NEW, THAN HE DID IN THE PAST.

5. APART FROM A FEW INDEPENDENTS, WHO HAVE CRITICIZED THE PREMIER FOR LACK OF IMAGINATION IN RECENT APPOINTMENTS, THERE HAS BEEN LITTLE NEGATIVE COMMENT. BUT THERE HAS ALSO BEEN VERY LITTLE POSITIVE COMMENT ON THE RESHUFFLE. THE ONLY APPOINTMENT THAT APPEARS TO HAVE MET WITH WIDE-SPREAD APPROVAL IS LIN YANG-KANG'S APPOINTMENT AS TAIPEI MAYOR. LIN HAS ALREADY DEMONSTRATED A DEGREE OF DECISIVENESS UNKNOWN DURING THE ADMINISTRATION OF HIS PREDECESSOR, CHANG FENG-HSU. SHORTLY AFTER ASSUMING OFFICE, LIN WON THE PRAISE OF TAIPEI RESIDENTS BY SETTLING A DISPUTE OVER THE ADMINISTRATION OF THE PARTIALLY PRIVATE, PARTIALLY PUBLIC JONG HSING GARDENS. HIS ANNOUNCEMENT OF A NEW CHAIN-OF-COMMAND ADMINISTRATIVE LIABILITY POLICY FOR MUNICIPAL

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DEPARTMENT HEADS IF THEIR SUBORDINATES ARE INVOLVED IN SERIOUS CASES OF CORRUPTION OR LAW-BREAKING, APPLICATION OF A DETENTION SENTENCE (INSTEAD OF A FINE) FOR GOVERNMENT EMPLOYEES FOUND GAMBLING, AND HIS DECISION TO GIVE MORE RESPONSIBILITY TO TAIPEI DISTRICT OFFICES IN ORDER TO INCREASE EFFICIENCY HAVE CONVINCED MOST PEOPLE IN TAIPEI THAT HE IS SERIOUS IN SEEKING MEANS TO IMPROVE THE EFFICIENCY OF THE MUNICIPAL GOVERNMENT. WHILE IT IS STILL TOO EARLY

TO ASSESS THE REAL EFFECT OF LIN'S INITIATIVES, HE HAS AT
LEAST BEEN SUCCESSFUL IN CONVINCING TAIPEI RESIDENTS THAT
HE IS MOVING IN THE RIGHT DIRECTION.

6. INVESTIGATION AND PROSECUTION OF THOSE RESPONSIBLE
FOR THE CHI TA LOAN SCANDAL CONTINUE. SO FAR, 16 SENIOR
BANK OFFICIALS AND 20 MIDDLE-LEVEL BANK OFFICIALS HAVE
BEEN ADMINISTRATIVELY PUNISHED, AND THEIR CASES ARE BEING
STUDIED BY THE PUBLIC PROSECUTOR FOR POSSIBLE LEGAL
ACTION. NOW THAT THE AUDITING OF CHI TA'S FINANCIAL
STATEMENTS HAS BEEN COMPLETED, SOLUTION OF THE FINANCIAL
ASPECTS OF THE PROBLEM CREATED BY THE LOAN SCANDAL CAN
BE UNDERTAKEN. EFFECTS OF THE SCANDAL ARE NOW BEGINNING
TO BE FELT BY MANUFACTURING FIRMS, ESPECIALLY TEXTILE
COMPANIES, WHOSE ACCESS TO BANK FINANCING FOR OPERATING
FUNDS HAS BEEN RESTRICTED BY NEW CAUTION DISPLAYED BY
BANKS IN EXTENDING CREDIT. THIS CAUTION RESULTS IN PART
BECAUSE BANK OFFICIALS ARE WITNESSING THE PUNISHMENT OF
FORMER COLLEAGUES WHO DISPLAYED BAD JUDGMENT AND IN PART
BECAUSE SOME BANKS INVOLVED IN THE SCANDAL WERE OVEREXTENDED.
THE INDUSTRIAL DEVELOPMENT BUREAU HAS BEEN WORKING WITH
INDIVIDUAL FIRMS TO ADOPT SALVAGE PLANS, AND THE CENTRAL
BANK HAS AGREED TO A SIX-MONTH EXTENSION OF PAYMENTS DUE
ON EARLIER LOANS TO FINANCE IMPORTED EQUIPMENT.
IN ADDITION, CENTRAL BANK GOVERNOR YU KUO-HUA HAS CALLED
UPON BANKS TO RESUME CREDIT OPERATIONS AS USUAL, SUBJECT
TO MORE CAREFUL CREDIT EVALUATION.

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FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 413

INFO AMEMBASSY MANILA

AMEMBASSY SEOUL
RUEHKOXAMEMBASSY TOKYO 5709
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USLO PEKING
CINCPAC

C O N F I D E N T I A L SECTION 2 OF 2 TAIPEI 4889

CINCPAC FOR POLAD

7. SECONDARY EFFECTS OF H LOAN SCANDAL WILL CONTINUE TO RIPPLE THROUGH THE FINANCIAL SECTOR FOR SOME TIME TO COME, AND IT IS STILL NOT CLEAR HOW THE MASSIVE DEBTS OF CHI TA AND ITS SUBSIDIARIES WILL BE REIMBURSED OR RESCHEDULED. IF MAJOR US BANKS SUFFER SERIOUSLY FROM THIS CASE, PROSPECTS FOR LARGE NW FINANCING BEING SOUGHT BY THE MINISTRY OF FINANCE COULD BE REDUCED. HOWEVER, AT PRESENT MOST US BANKERS ARE MOVING AHEAD IN A NORMAL MANNER, APPRENTLY ON THE ASSUMPTION THAT THE PROBLEM WILL BE DEALT WITH SATISFACTORILY.

8. FORMER VICE MINISTER OF FIANCE, WANG SHAO-YU, WHO HAD EARLIER BEEN LINKED IN RUMORS TO THE CHI TA SCANDAL, IS APPARENTLY BEING REHABILITATED, HAVING RECENTLY APPEARED AT A PERIODIC SINO-AMERICAN FELLOWSHIP BREAKFAST AT WHICH HIGH RANKING GROC OFFICIALS WERE ALSO PRESENT. IT WAS RECENTLY ANNOUNCED IN THE PRESS THAT HE HAS BEEN MADE CHAIRMAN OF THE BOARD OF A NEWLY ORGANIZED JOINT VENTURE
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COMPANY, CHINA AMERICAN PETROCHEMICAL COMPANY--50 PERCENT AMOCO (US), 25 PERCENT CPC, AND 25 PERCENT CENTRAL HOLDING AND TRUST (KMT)--WHICH WILL BUILD A PURE TEREPHTHALIC ACID PLANT COSTING OVER US\$100 MILLION. MOREOVER, ACCORDING TO THE PRESS, WANG HAS RETAINED HIS POSITION AS VICE CHAIRMAN OF THE KMT FINANCIAL AFFAIRS COMMITTEE, SUGGESTING THAT WHILE WANG MAY HAVE BEEN GUILTY OF STRONG POLICY DIFFERENCES WITH THE PREMIER, HE WAS PROBABLY NOT INVOLVED IN THE LOAN SCANDAL. SOME TAIWANESE, HOWEVER, HAVE VOICED THE OPINION THAT WANG'S REHABILITATION MAY SIMPLY BE AN INDICATION OF A MORE LENIENT STANCE BY THE PREMIER TOARD MAINLANDERS THAN TAIWANESE.

9. THE US PRESIDENTIAL ELECTION AND THE NEXT ADMINISTRATION'S CHINA POLICY ARE AN ACTIVE TOPIC OF SPECULATION HERE AND WE HAVE HEARD SUGGESTIONS THAT THE GROC IS CONSIDERING APPROACHING DEMOCRATIC NOMINEE CARTER AND THE REPUBLICAN NOMINEE, ONCE DECIDED, IN ORDER TO PROMOTE ITS POSITION. SUCH A MOVE WOULD NOT BE SURPRISING:
THE GROC OVER THE PAST SEVERAL YEARS HAS INCREASINGLY

SOUGHT TO INFLUENCE US OPINION AND POLICY MAKERS, INCLUDING CONGRESS, THE PRESS, AND MOST RECENTLY US CHINA SCHOLARS (THROUGH THE FIFTH SINO-AMERICAN CONFERENCE ON THE MAINLAND THE TAMKANG COLLEGE AMERICAN STUDIES CONFERENCE). HOWEVER WE HAVE BEEN TOLD ON GOOD AUTHORITY THAT SUCH APPROACHES ARE NOT PRESENTLY PLANNED.

10. THE MOST POPULAR SUBJECT OF CONVERSATION AND IN THE PRESS OVER THE PAST WEEK HAS BEEN THE QUESTION OF ROC PARTICIPATION IN THE OLYMPICS. THE CANADIAN POSITION HAS BEEN MET HERE WITH VARIED DEGREES OF INDIGNATION, FRUSTRATION, DISAPPOINTMENT, AND RESIGNATION; BUT MANY HAVE BEEN ENCOURAGED BY THE FAVORABLE PRESS AND PUBLIC STATEMENTS FROM LEADERS OF VARIOUS SPORTS ORGANIZATIONS AND COUNTRIES IN DEFENSE OF THE ROC POSITION. IN PARTICULAR, SEVERAL GROC OFFICIALS, AS WELL AS THE MAN-ON-THE STREET, HAVE EXPRESSED THEIR APPRECIATION FOR WHAT THEY INTERPRET AS STRONG USG SUPPORT FOR THE ROC'S POSITION. WHILE SOME GROC OFFICIALS VIEW THIS PRIMARILY AS A RESULT OF US COMMITMENT TO A PRINCIPLE OF CONDUCT IN INTERNATIONAL MEETINGS, OTHERS, BOTH IN AND OUT OF GOVERNMENT, CONFIDENTIAL

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HAVE EXPRESSED THE VIEW THAT THIS IS A SIGNAL OF CONTINUED USG SUPPORT FOR THE ROC ITSELF. UNGER

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